

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 EUR-12 ISO-00 INT-05 GSA-01 COME-00

TRSE-00 OPIC-03 AID-05 IGA-02 CIAE-00 INR-07 NSAE-00

OMB-01 ITC-01 /051 W

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R 011600Z DEC 76

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 3303

INFO AMEMBASSY LONDON

LIMITED OFFICIAL USE SECTION 1 OF 2 LA PAZ 9545

FOR: DEPT PASS INTERIOR BUREAU OF MINES - G. KINGSTON

E.O. 11652: N/A

TAGS: EMIN, BL

SUBJ: BOLIVIAN TIN PRODUCTION COSTS: DECEMBER ITC MEETING

REFS: (A) STATE 276972 (B) STATE 276933

1. SUMMARY: THIS TELEGRAM PRESENTS AN OVERVIEW OF TIN MINING COSTS IN BOLIVIA, INFLATION IN COSTS IN THE MINING INDUSTRY, NEW INVESTMENT AND PROFIT AND LOSS POSITION OF SOME MAJOR COMPANIES. TIN MINING COSTS HAVE BEEN RISING BUT, AT PRICES PREVALENT THRU MOST OF 1976, TIN MINES ARE MAKING MONEY. HOWEVER, MOST COMPANIES WOULD LOSE MONEY AT CURRENT ITC FLOOR PRICES. END SUMMARY.

2. TIN PRODUCTION AND STOCKS. TIN PRODUCTION IS PROCEEDING AT A NORMAL PACE. COMIBOL WILL REACH ITS GOAL OF 20,400 MT IN SPITE OF THE STRIKE IN JUNE. ENAF IS PRODUCING REFINED TIN AT VINTO AT NEAR NORMAL RATE AND WILL REACH 10,100 MT THIS YEAR (CAPACITY 11,000 MT). MEDIUM MINERS ALSO PRODUCING AT NORMAL RATE AND WILL PROBABLY EXCEED 1975 PRODUCTION OF 7,054 MT. FOR EXAMPLE, JULY TO SEPTEMBER 1976 PRODUCTION WAS UP

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OVER SAME PERIOD 1975 AS FOLLOWS: COMIBOL - 3.3 PCT,

MEDIUM MINERS - 1.0 PCT; SMALL MINERS - 19.3 PCT OR 300 MT IN ALL. TIN STOCKS ARE ALSO AT NORMAL LEVELS AFTER BUILD-UP ACCUMULATED UNDER ITC EXPORT QUOTES. BETWEEN PREPARATION, TRANSPORT AND PORT COMIBOL HAS ABOUT 4,000 MT IN THE PIPELINE. ENAF HAS ABOUT 150 MT OF REFINED TIN IN STOCK. ALTHOUGH SPECIFIC FIGURES NOT READILY AVAILABLE, MEDIUM MINERS STOCKS ARE ALSO, ACCORDING TO THEIR ASSOCIATION, AT NORMAL WORKING LEVELS.

3. NEW INVESTMENTS IN TIN. THE NEW JERSEY ZINC INVESTMENT AT KELLGUANI IS PENDING OUTCOME OF A CORSSCUT DESIGNED TO CUT MANTO 4 THE MAIN MINERALIZED VEIN, AND RESULTS FROM A 50 MT PER DAY (2 SHIFTS) PILOT PLANT. BY FEBRUARY NEW JERSEY ZINC SHOULD KNOW IF IT IS GOING AHEAD WITH FEASIBILITY STUDY TO PUT IN 2,000 MT PER DAY MILL. SO FAR NEW JERSEY ZINC HAS SPENT ABOUT ONE MILLION DOLLARS; IF GO AHEAD IS GIVEN FOR BIGGER INVESTMENT IT WILL PROBABLY LIE IN RANGE OF 12 TO 15 MILLION DOLLARS. COMIBOL - LONDON TIN PROJECT TO PUT DREDGE AT PLAYA VERDE HAS PASSED THE TECHNICAL STUDY PHASE AND IS AT LEVEL OF CABINET DECISION. COMIBOL SAYS CONEPLAN IS ASKING THEM TECHNICAL QUESTIONS FOR CLARIFICATION. AT THIS POINT IT APPEARS PROJECT WILL GO FORWARD. SEVERAL OF THE SMALLER MEDIUM MINERS WOULD LIKE TO EXPAND PRODUCTION SUCH AS CERRO GRANDE AND SOTECO S.A. COMSUR WILL EVENTUALLY BE LOOKING FOR NEW GROUND FOR ITS DREDGE. A NUMBER OF COMIBOL PROJECTS TO EXPAND PRODUCTION, TREATMENT AND RECUPERATION OF TIN IN THE NEAR FUTURE WERE LISTED ON PAGE 64 OF LA PAZ A-86. HUANUNI MINE HAS JUST RECEIVED A CREDIT FOR 225,000 POUNDS STERLING TO INCREASE CAPACITY OF ITS CONCENTRATION PLANT. THERE HAVE BEEN NO NEW SIGNIFICANT INVESTMENTS IN TIN MINING INDUSTRY IN 1975 OR 1976 EXCEPT FOR THE SOVIET TIN VOLATILIZATION PLANT AT LA PALCA NEAR POTOSI WHICH IS TO BE COMPLETED IN APRIL 1978. NEW INVESTMENTS IN TIN SMELTING AND REFINING AT VINTO WERE REPORTED IN A-86.

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4. NEW MINING LAW. IT NOW APPEARS THAT GOB WILL NOT COME OUT WITH AMENDMENTS TO MINING CODE UNTIL SOMETIME DURING FIRST QUARTER OF 1977. NEW LAW WILL REPORTEDLY OFFER INCENTIVES TO PRIVATE COMPANIES TO DO EXPLORATION AND EXPLOITATION IN AREAS NOW DESIGNATED AS FISCAL RESERVES. IT IS IMPOSSIBLE TO GAUGE WHAT EFFECT THIS MIGHT HAVE ON TIN PRODUCTION

BUT EARLIEST IMPACT WOULD CERTAINLY BE MEDIUM FUTURE OR ABOUT FOUR YEARS. ANOTHER NEW LAW BEING STUDIED IS CHANGE IN MINING TAXATION SYSTEM BASED ON HARVARD STUDY. IT NOW APPEARS GOB MIGHT HAVE PART WAY TOWARDS A SYSTEM OF PROFITS TAX AND TAX CREDITS FOR EXPLORATION, ETC. IF THESE TAX CHANGES ARE INDEED IMPLEMENTED (IT APPEARS THEY WILL BE SOON) THEN THE POTENTIAL IMPACT ON TIN PRODUCTION IN NEAR TERM FUTURE COULD BE GREATER AS EXISTING MINES COULD EXPAND PRODUCTION GIVEN PROPER FISCAL INCENTIVES. AS POINTED OUT IN PAGE 43 OF A-86 THERE IS PLENTY OF TIME(AND OTHER METALS) IN BOLIVIA YET TO BE EXPLOITED EVEN IF NEW USES FOR TIN ARE FOUND BY INDUSTRIAL NATIONS BUT PROPER LEVEL OF INVESTMENT AND TECHNOLOGY ARE REQUIRED.

5. INFLATION OF COSTS IN TIN MINING. MINISTRY OF MINES HAD DONE ITS OWN STUDY OF PRICE INCREASES FOR SEVEN COMMON CONSUMABLE ITEMS IN MINING. INFLATION WAS MEASURED BETWEEN JANUARY 1975 AND JULY 1976. THIS BRIEF STUDY ALSO INCLUDED A DETERMINATION OF RELATIVE CONTRIBUTION TO MINING COSTS. STUDY DID NOT TAKE INTO ACCOUNT INCREASES IN COSTS OF TRUCKS, DRILLS, COMPRESSORS AND OTHER LARGE MACHINERY, NOR FUEL, WATER, ELECTRICITY AND OTHER COSTS. SEVEN CONSUMABLE MATERIALS ARE AMONIUM NITRATE, DYNAMITE, DRILL BITS, XANTHATE AND OTHER CHEMICAL REAGENTS, CONCENTRATE SACKS, WOOD, CEMENT. THE WEIGHTED AVERAGE (BASED ON CONTRIBUTION TO MINING COSTS) PERCENTAGE INCREASE WAS 33.1 PERCENT OF WHICH 8.2 PERCENT OCCURRED DURING THE PERIOD JANUARY TO JULY 1976. THIS IS IN MANY WAYS A SUPERFICIAL STUDY AND SHOULD BE CONSIDERED INDICATIVE LIMITED OFFICIAL USE

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ONLY OF THE TREND IN BOLIVIAN MINING COSTS. IN JUNE THE MINE WORKERS AT COMIBOL RECEIVED AN AVERAGE WAGE INCREASE OF ABOUT 20 TO 30 PERCENT. THE MEDIUM MINERS WILL EVENTUALLY HAVE TO MEET THIS INCREASE AND PROBABLY OFFER MORE. LABOR IS ESTIMATED TO COMPRISE ABOUT 20 PERCENT OF MINING COSTS. AS POINTED OUT IN A-9, JANUARY 23, 1976 AND A-86 THE SCHEDULE OF ROYALTIES (BUT NOT FLAT PERCENTAGE EXPORT TAX) WAS REDUCED BEGINNING JANUARY 1, 1976. COBEE PROVIDES ELECTRIC POWER TO SOME MINING COMPANIES IN URURO-LA PAZ AREA USUALLY UNDER CONTRACT. MINA MATILDE (COMIBOL) HAS NOT HAD RATE INCREASE IN SEVERAL YEARS WHEREAS FABULOSA MINES WAS RAISED 6 PERCENT IN AUGUST 1976 AND A 5 PERCENT INCREASE WAS GIVEN TO INDUSTRIAL AND COMMERCIAL CUSTOMERS IN MARCH 1976. ANCOM ALLOWSTIONS

LIKE ATLAS COPCO HAVE ALSO RAISED MINING COSTS.

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6. TIN PRODUCERS PROFIT AND LOSS. 1975 PROFIT OR LOSS STATEMENT FOR COMIBOL WAS GIVEN IN A-86, PAGE 19, IN WHICH A LOSS OF \$10.7 MILLION WAS SUFFERED IN 1975 AND A PROFIT OF \$5.1 MILLION WAS RECORDED IN 174 (COMIBOL HAS NINE TIN MINES). MAJOR PRIVATE TIN PRODUCERS ARE ESTALSA AND INTERNATIONAL MINING CO. (BOTH OWNED BY SAME SHAREHOLDER) AND COMSUR AND FABULOSA (ALSO BOTH OWNED IN MAJORITY BY SAME SHAREHOLDERS). THE 1975 PRODUCTION (FIVE TONS) AND PROFIT (IN DOLLARS) FIGURES ARE FOLLOWING:

COMPANY	PROFIT AND LOSS	PRODUCTION
ESTALSA	2,787,538	1,818 MT
IMCO	1,377,702	1,031 MT
COMSUR	555,720	183 MT
FABULOSA	(INC. ABOVE)	786 MT
TOTAL	-244,767	394 MT

IT IS DIFFICULT TO SEPARATE OUT THE COSTS OF TIN PRODUCTION FROM OTHER MINERALS SINCE COMSUR PRODUCES ZINC AS WELL AS TIN, AND ZINC HELD UP BETTER IN 1975 THAN TIN (COMSUR S.A. OWNS 60 PERCENT OF FABULOSA AND ISSUED

A CONSOLIDATED INCOME STATEMENT AS OF SEPTEMBER 30,
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1975). ESTALSA AND IMCO BOTH PRODUCE TUNGSTEN AS WELL AS TIN, AND TUNGSTEN PRICES WERE ALSO BETTER THAN TIN PRICES IN 1975. TOTORAL IS EXAMPLE OF COMPANY THAT PRODUCES ONLY TIN AND IT SUFFERED A LOSS OF \$244,767 IN 1975. ALL OF THE MEDIUM MINERS HAD TO BORROW HEAVILY IN 1975 TO MAKE ENDS MEET (MEDIUM MINERS PRODUCE 20 PERCENT OF BOLIVIAN TIN). NATURE OF BOLIVIAN EXPORT TAXES CAUSES COMPANIES TO BEAR A HEAVY BURDEN ESPECIALLY IN YEARS WHEN PRICES ARE LOW. THESE TAXES UNDOUBTEDLY HAVE REDUCED AMOUNT OF NEW INVESTMENT. (GOB COMMISSIONED STUDY BY HARVARD UNIVERSITY MENTIONED ABOVE MADE RECOMMENDATIONS TO CHANGE MINING TAXATION SYSTEM.) INFORMATION ON TIN MINING COSTS OF SMALL MINERS IS DIFFICULT TO OBTAIN SINCE THEY ARE NOT OBLIGED BY LAW TO KEEP ACCOUNTING RECORDS.

7. AVERAGE TIN MINING COSTS. TIN MINING COSTS VARY BOTH BETWEEN AND WITHIN COMIBIL, MEDIUM MINING SECTOR AND SMALL MINING SECTOR. COST UP-DATING IS DIFFICULT DUE TO SEVERAL FACTORS THAT INCLUDE DIFFERENT EXPLOITATION METHODS, LOCAL PRICE INFLATION AND TRANSPORT. OTHER IMPORTANT FACTOR IS THE ACCOUNTING SYSTEM IN THE THREE SECTORS WHICH VARIES FROM NON-EXISTENT IN SMALL MINING SECTOR TO HIGHLY COMPLICATED IN COMIBOL. A BRIEF ANALYSIS OF COMIBIL'S COSTS' TAKING INTO ACCOUNT INFLATION FIGURE OF 8.2 PERCENT (MENTIONED ABOVE) WAS \$3.03, 1975 COST FIGURE FROM A-86, WE GET JULY 1976 COST OF \$3.28. LABOR COSTS HAVE ALSO INCREASED DURING THE THIRD QUARTER BY ABOUT 30 PERCENT. THIS ADDS ABOUT 12 CENTS PER POUND TO COSTS. EMBASSY HAS PREPARED ITS OWN ESTIMATES OF COST INFLATION IN TIN PRODUCTION PRESENTED BELOW.

	US\$ PER LB. OF FINE TIN		AVERAGE PERCENT
	OF TOTAL		
	COST		
	1975	1976	
A) LABOR	0.6419	0.7617	20.0
SUPPLIES	0.2837	0.3037	8.0

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POWER	0.0623	0.0723	2.0
DEPRECIATION	0.0570	0.0670	2.0
OTHERS	0.5465	0.6265	20.0
(TOTAL COST AT			
MINE)	(1.5812)	(1.8312)	(52.0)
B) HITS #	0.7168	0.7884	22.0
C) TAXES	0.7384	0.9181	26.0

TOTAL COST	3.0369	3.5377
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(AT MARKET LME)

NOTE: # SMELTING, HANDLING, INSURANCE AND TRANSPORT
 1975 FIGURES ARE COMIBOL'S 1976 FIGURES ARE
 ESTIMATES BY EMBASSY.

AS FOR THE MEDIUM MINERS AND SMALL MINERS THE MINING COSTS (INCLUDING STOPING, DEVELOPMENT, AUXILIARY SERVICES, ETC.) SUM TO A RANGE OF \$7.00 TO \$12.00 PER METRIC TON AND MILLING COSTS VARY FROM 4.40 TO \$8.00 PER METRIC TON TREATED, WITH A 65 PERCENT AVERAGE OF RECOVERY. THE CHEAPEST FORM OF MINING TIN REMAINS BY DREDGE ALTHOUGH THERE ARE ONLY TWO DREDGES NOW WORKING IN BOLIVIA. ANNUAL TIN DREDGE PRODUCTION IS AROUND 750 MT FINE TIN THAT REPRESENTS 2.8 PERCENT OF TOTAL PRODUCTION. ESTALSA DREDGE IN AVICAYA HAD AVERAGE COSTS OF 2.07 PER POUND INCLUDING TAXES FROM JULY TO DECEMBER 1975 AND A COST OF \$2.74 FROM JANUARY TO JUNE 1976. ESTALSA COSTS FOR HARD ROCK MINING ARE HIGHER. SMALLER MINERS AND COOPERATIVES HAVE AN AVERAGE DISCOUNT OF 40 TO 43 PERCENT OF BAMIN'S ON-THE-BOARD PRICE (LME TIN PRICE), TO ACCOUNT FOR SMELTING, HANDLING, TRANSPORT AND INSURANCE (EMBASSY ESTIMATES AVERAGE \$0.70 PER POUND IN THE CASE OF 55 PERCENT TIN CONCENTRATE), STORAGE, AND LOT PREPARATION AS WELL AS TAXES AND OTHER EXPENSES. ABOVE ESTIMATE OF \$3.54 PER POUND FOR TIN IS BASED ON INFO AVAILABLE TO EMBASSY. WE BELIEVE IT IS ON HIGH SIDE SINCE COST DATA RARELY UNDERSTATED, THEREFORE WE FEEL COSTS ARE CERTAINLY NO HIGHER LIMITED OFFICIAL USE

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THAN \$3.54 PER POUND (INCLUDING HITS, TAXES, PRODUCTION COSTS). EMBASSY HAS RECEIVED INFO THAT COMIBIL CLAIMS ITS COSTS FOR TIN PRODUCTION IN PERIOD JANUARY-JUNE 1976 WERE ABOUT \$3.50 PER POUND AND THAT IN SECOND HALF OF YEAR THEY ARE RUNNING ABOUT \$3.70 IN CONCLUSION IT IS WORTH POINTING OUT THAT BOLIVIAN MINERS CONTINUE TO WORK UNDER DIFFICULT

CONDITIONS OF RELATIVELY
LOW PAY, HIGH ALTITUDE AND GENERALLY POOR LIVING
AND WORKING CONDITIONS.

8. EMBASSY EXPECTS THAT THIS DATA WILL BE USED
IN SUCH A WAY THAT THE EMBASSY WILL NOT BE
IDENTIFIED AS A SOURCE OF INFORMATION THUS
POSSIBLY PREJUDICING OUR FUTURE EFFORTS AT
OBTAINING INFORMATION. EMBASSY WOULD APPRECIATE
RECEIVING INFO ON ORE GRADES, CAST TABLES,
INVESTMENT TRENDS, ETC. MENTIONED IN LONDON
18990.

9. AMBASSADOR AND MINATT WERE CALLED TO OFFICE
OF MINISTER OF MINES ON AFTERNOON NOVEMBER 29
TO RECEIVE A DEMARCHE ON BOLIVIAN POSITION AND ITS
SUPPORTING RATIONALE IN REGARD TO UPCOMING
ITC MEETING. THIS CONVERSATION AND ACCOMPANYING
COST STATISTICS BEING REPORTED SEPTEL.
STEDMAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TIN, MEETING REPORTS, PRICES, MINING INDUSTRY, PRODUCTION TRENDS
Control Number: n/a
Copy: SINGLE
Draft Date: 01 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LAPAZ09545
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760445-0376
From: LA PAZ
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761284/aaaaculb.tel
Line Count: 351
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 276972, 76 STATE 276933
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 19 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 MAY 2004 by BoyleJA>; APPROVED <13 SEP 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BOLIVIAN TIN PRODUCTION COSTS: DECEMBER ITC MEETING
TAGS: EMIN, BL, ITC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006